

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

EA-06 NEA-10 OPIC-03 SIL-01 /123 W

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R 061613Z JUN 75

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 3017

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

USMISSION GENEVA

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

USMISSION NATO

AMEMBASSY VIENNA

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SUBJ: IMPORT SURTAX

REF: (A) LISBON 3081 (B) LISBON A-135 NOTAL (C) STATE 130850

SUMMARY: JUST-IMPOSED IMPORT SURTAX LEVIED ON DUTIABLE (CIF) VALUE, AND WILL BE CHARGED ON SHIPMENTS STILL IN CUSTOMS EVEN IF DUTY ALREADY PAID. SOME IMPORTERS THUS SEEKING TO RETURN GOODS. EMBASSY HAS DOUBTS ABOUT REAL EFFECT IN REDUCING IMPORTS. U.S. APPEARS SLIGHTLY AFFECTED, WHILE WEST GERMAN AND U.K. EXPORTS GREATLY AFFECTED. STIFFER MEASURES POSSIBLE. END SUMMARY.

1. GOP HAS PUBLISHED DECREE-LAW 271-A/75 DATED MAY 31 AUTHORIZING IMPOSITION OF 20 AND 30 PERCENT SURTAX (OR SURCHARGE) ON WIDE RANGE OF IMPORTS ANNOUNCED JUNE 2 (REFS A, B). FURTHER READING OF AND CHECKING ON MEASURE AND ITS IMPACT HAVE ESTABLISHED FOLLOWING:

A. SURTAX IS NOT RPT NOT SURTAX ON DUTY, BUT SURTAX ON CIF VALUE OF IMPORT. IT IS IN EFFECT A 20 OR 30 PERCENT TAX LEVIED ONLY ON IMPORTS AND COLLECTED BY CUSTOMS ON DUTIABLE VALUE--I.E., VALUE BEFORE REGULAR DUTY AND TAXES ADDED. IT CAN BE EXPECTED TO HAVE AN INFLATIONARY IMPACT BY RAISING PRICE OF GOODS.

B. SURTAX WILL BE LEVIED ON ALL GOODS NOT YET CLEARED FROM CUSTOMS, EVEN IF DUTIES ALREADY PAID. ALREADY MANY IMPORTERS ARE SEEKING TO RETURN GOODS IN THIS STATUS BECAUSE THEY FEEL UNANTICIPATED NEW (AND VERY HEAVY) BURDEN WILL CAUSE GOODS TO BE OVERPRICED OR MERCHANTS WILL BE UNABLE TO RAISE PRICES ENOUGH TO COVER.

C. SECRETARY OF STATE FOR SUPPLY AND PRICES JOSE NETO TOLD EMBOFF THAT SURTAX DESIGNED TO CHANGE CONSUMPTION PATTERNS, INCREASE GOVERNMENT REVENUE, AND PRESERVE RESERVES BY REDUCING IMPORTS. HE ALSO ESTIMATED SURTAX WILL AFFECT 40 PERCENT OF VALUE OF PORTUGUESE IMPORTS.

D. ARTICLE IN JUNE 4 A CAPITAL QUOTED RELIABLE SOURCE IN DIRECTORATE-GENERAL OF FOREIGN TRADE TO EFFECT THAT SURTAX SHOULD REDUCE IMPORTS BY \$80 TO \$120 MILLION DOLLARS THIS YEAR (COMMENT: LESS THAN 2-3 PERCENT OF LAST YEAR'S IMPORTS. END COMMENT). HOWEVER, OTHER EMBASSY SOURCES INDICATE EFFECT ON IMPORTS, INFLATION, AND DOMESTIC DEMAND IMPOSSIBLE TO ESTIMATE ACCURATELY DUE TO LACK OF INPUT-OUTPUT MATRIX AND EXACT LIMITED OFFICIAL USE

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PRICE ELASTICITIES.

2. ALTHOUGH SOME OF LOUD COMPLAINTS BY IMPORTERS MAY BE FOR EFFECT, SEVERAL HAVE TOLD EMBOFFS THAT SURTAX WOULD CAUSE VIRTUAL CESSATION OF IMPORTS OF MANY ALREADY VERY EXPENSIVE CONSUMER GOODS. MEETINGS HAVE ALREADY BEEN HELD TO DISCUSS MEANS OF PRESSURING GOVERNMENT FOR REVISION.

3. OFFICIALS CONNECTED WITH EC AND EFTA AFFAIRS TOLD EMBOFF THOSE ORGANIZATIONS WERE NOTIFIED OF ACTION, AND THAT THEY EXPRESSED RESIGNED UNDERSTANDING. GOP OFFICIALS POINTED OUT OTHER EC/EFTA COUNTRIES HAVE ADOPTED SIMILAR MEASURES IN EMERGENCY SITUATIONS.

4. PRELIMINARY ANALYSIS OF 1974 TRADE STATISTICS INDICATES THAT EFFECT ON U.S. EXPORTS MAY NOT BE SEVERE. SURTAX WILL NOT APPLY TO MAJOR U.S. PRODUCTS--AGRICULTURAL GOODS SUCH AS WHEAT, CORN, SOYBEANS, OIL MEAL, TOBACCO, COTTON, ETC., NOR TO AIRCRAFT, ELECTRONIC TUBES, SOME MEDICINES, COMPUTERS AND CERTAIN TYPES OF MACHINERY. EXPORTS OF FIRST AND SECOND LARGEST SUPPLIERS, GERMANY AND U.K., EXPECTED TO BE SEVERELY AFFECTED. BOTH COUNTRIES' EXPORTS CONCENTRATED IN CATEGORIES OF AUTOMOBILES AND COMPONENTS, FIBERS, CHEMICAL AND PLASTIC PRODUCTS, MACHINERY AND DOMESTIC APPLIANCES--ALL AFFECTED BY SURTAX. SWISS EXPORTS ALSO RELATIVELY HARD HIT. (SEE SEPTTEL.)

5. COMMENT: A. GOP HAD ALREADY ADOPTED CREDIT RESTRICTIONS--IN PART TO HELP RELIEVE IMPORT PRESSURES (LISBON 2023, 2608, 2919, A-131 NOTAL), ALTHOUGH THESE HAVE JUST BEEN SLIGHTLY EASED (SEPTTEL). HOWEVER, NO REALLY CONCRETE MEASURES HAVE YET BEEN TAKEN TO STIMULATE EXPORTS AND IMPROVE DISASTROUS TOURIST SITUATION.

B. EMBASSY HAS DOUBTS ABOUT EFFECTIVENESS OF SURTAX (PARA 1(D) ABOVE) AND OTHER MEASURES TAKEN THUS FAR. IT APPEARS PROBABLE THAT GOP IS NOT EXCLUDING, AND MAY WELL TAKE, STIFFER MEASURES (PARA 4, REFTTEL A). PRESS IN PAST SEVERAL WEEKS HAS CARRIED RECURRENT SPECULATION ABOUT POSSIBLE RATIONING. MAY 31 EXPRESSO SPECIFICALLY CITED PROPOSED RATIONING OF MEAT AND GASOLINE OR--IN THE LATTER CASE--POSSIBLE ADOPTION OF ALTERNATE DAYS SYSTEM FOR CAR USAGE. SECRETARY OF STATE FOR SUPPLY AND PRICES DENIED TO EMBOFF THAT RATIONING PLANNED-- LIMITED OFFICIAL USE

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BUT IMPLICITLY ADMITTED POSSIBILITY HAD BEEN STUDIED BY CLAIMING IT WOULD TAKE SIX MONTHS TO ESTABLISH.

C. CONSIDERABLE SPECULATION ALSO RAMPANT CONCERNING STATUS OF RESERVES AND GOP STRATEGY FOR FINANCING. URGENT APPEAL TO EC FOR LARGE LOAN MADE TO EC PRESIDENT GARRETT FITZGERALD DURING LISBON VISIT THIS WEEK (LISBON 3184 NOTAL); REPORTED AGREEMENT ON SHORT-TERM LOAN (GUARANTEED BY PORTUGUESE GOLD) FROM BANK FOR INTERNATIONAL SETTLEMENTS (LISBON 3168 NOTAL); AND TOP-LEVEL CHANGES IN BANK OF PORTUGAL (LISBON 2997 NOTAL) ALL APPEAR PART OF EMERGING PICTURE WHICH EMBASSY IS ANALYZING.

D. ALTHOUGH SURTAX TO BE RETURNED IF IMPORT USED IN MAKING EXPORT GOODS, LONG BUREAUCRATIC DELAYS IN MAKING REFUNDS WILL MAKE SURTAX ADDED OPERATIONAL COST TO LOCAL EXPORT FIRMS. CARLUCCI

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